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THE JANET L. YELLEN PROGNOSTICATIONS:
BUT IS ANYBODY LISTENING ?

In her maiden speech as the Chairman of The Federal Reserve, Ms Janet L. Yellen has made it very clear that, inter alia, '*a highly accommodative policy*' of The Fed would *'remain appropriate for a considerable time after asset purchases end'*.

Before the Committee on Financial Services, the US House of Representatives, last Tuesday-week (February 11, 2014), Ms Yellen gave her testimony as the incoming Chairman of The Fed, following the resignation of Dr Ben S. Bernanke.

Her testimony with regard to The Semi-Annual Monetary Policy Report to The Congress of the United States of America was marked with reserve and she consistently emphasised the keynote of The Fed's findings, being moderation in respect of many aspects of the largest, single economy of the world.

It appears to this medium that many facets of Ms Yellen's testimony, to some extent at least, have been somewhat overlooked, sadly, and may not have been fully understood.

In respect of the **G**ross **D**omestic **P**roduct (**GDP**) – the total value of goods and services – Ms Yellen said:

> *'Among the major components of GDP, household and business spending growth stepped up during the second half of last year. Early in 2013, growth in consumer spending was restrained by changes in fiscal policy. As this restraint abated during the second half of the year, household spending accelerated, supported by job gains and by rising home values and equity prices. Similarly, growth in business investment started off slowly last year but then picked up during the second half, reflecting improving sales prospects, greater confidence, and still-favorable financing conditions. In contrast, the recovery in the housing sector slowed in the wake of last year's increase in mortgage rates.'*

She, then, added a note of caution in her testimony, stating that inflation in the US *'remained low'* as the economy picked up strength *'with both the headline and core personal consumption expenditures, or PCE, price indexes rising only about 1 percent last year, well below the FOMC's* (**F**ederal **O**pen **M**arket **C**ommittee's) *2 percent objective for inflation over the longer run'*.

Ms Yellen explained that the *'recent softness reflects factors that seem likely to prove transitory, including falling prices for crude oil and declines in non-oil import prices'*.

Turning to economic activity and employment in the US, she said that it was anticipated that both would *'expand at a moderate pace this year and next'*.

With regard to unemployment in the country, Ms Yellen said that it *'will continue to decline toward its longer-run sustainable level'*.

As for inflation, it *'will move back toward 2 percent over coming years'*.

On the subject that appears to be worrying Wall Street of late, namely asset purchases by The Fed, or, perhaps, one should say, reduced asset purchases by The Fed, Ms Yellen said:

> *'Our current program of asset purchases began in September 2012 amid signs that the recovery was weakening and progress in the labor market had slowed. The Committee said that it would continue the program until there was a substantial improvement in the outlook for the labor market in a context of price stability. In mid-2013, the Committee indicated that if progress toward its objectives continued as expected, a moderation in the monthly pace of purchases would likely become appropriate later in the year. In December, the Committee judged that the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions warranted a modest reduction in the pace of purchases, from $45 billion to $40 billion per month of longer-term Treasury securities and from $40 billion to $35 billion per month of agency mortgage-backed securities. At its January meeting, the Committee decided to make additional reductions of the same magnitude. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings. That said, purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on its outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.'*

As long as the unemployment level in the US *'remains about 6-1/2 percent'*, The Fed '*expects the current low target range for the federal funds rate to be appropriate*'.

She, then, said:

> *'Crossing one of these thresholds will not automatically prompt an increase in the federal funds rate, but will instead indicate only that it had become appropriate for the Committee to consider whether the broader economic outlook would justify such an increase. In December of last year and again this January, the Committee said that its current expectation--based on its assessment of a broad range of measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments--is that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent, especially if projected inflation continues to run below the 2 percent goal. I am committed to achieving both parts of our dual mandate: helping the economy return to full employment and returning inflation to 2 percent while ensuring that it does not run persistently above or below that level.'*

In her final statement, Ms Yellen said:

> *'Since the financial crisis and the depths of the recession, substantial progress has been made in restoring the economy to health and in strengthening the financial system. Still, there is more to do. Too many Americans remain unemployed, inflation remains below our longer-run objective, and the work of making the financial system more robust has not yet been completed. I look forward to working with my colleagues and many others to carry out the important mission you have given the Federal Reserve.'*

What Does It, All, Mean?

What may one interpolate on reading Ms Janet L Yellen's testimony to the US Congress?

Well, as far as **TARGET** () can ascertain, The Fed is likely to leave well enough alone, at least for the time being, with interest rates, remaining at their current low levels.

In short, if it works, don't try to fix it, in the vernacular of the Americans.

The Fed's asset purchases may well be shaved down, depending on a number of factors, but, even so, any and all such reductions in asset purchases will be executed at a measured and moderate pace so as not to upset the US economic apple cart.

Even after The Fed's asset purchases are shaved, very materially – which is not expected in the short term, but materially reduced asset purchases must, inevitably, come to pass – the de facto Central Bank of the US will continue to monitor the economy, very carefully, and it will take appropriate steps in order to ensure that it stays on a steady course so as to enhance prosperity, lower unemployment levels, with inflation, being well contained.

All in all, Ms Yellen painted a picture of an economy well on the mend, with PCE quite likely to pick up in the months ahead.

In such a scenario, especially with regard to the largest and most-important economy of the world, today, there appears to be little about which to worry.

Perhaps, with share prices, having fallen to their present levels, now may be a good time to consider, making medium-to-long-term investments in stocks and shares.

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